

Message Text

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SUBJ: CIVAIR - FOREIGN GOVERNMENT SUBSIDIES TO FOREIGN
AIRLINES

REF: STATE 79306

1. ONLY UKG ASSISTANCE TO BRITISH AIRWAYS OF WHICH WE
ARE AWARE TAKES FORM OF CAPITAL INVESTMENT DESCRIBED
AS "PUBLIC DIVIDEND CAPITAL" (PDC). IN FISCAL YEAR END-
ING JUNE 30, 1973 (LATEST FIGURES AVAILABLE), BRITISH
AIRWAYS' PDC WAS INCREASED FROM 65 MILLION POUNDS TO
L25 MILLION. DURING SAME PERIOD, BA'S BORROWINGS FROM
NATIONAL LOANS FUND WERE REDUCED FROM L87.7 MILLION
POUNDS TO L5L.8 MILLION. PARTIAL SUBSTITUTION OF PDC
FOR FIXED INTEREST BEARING LOANS IS DESCRIBED IN
ANNUAL REPORT AS "STEP IN THE DIRECTION OF ACHIEVING
THE DEBT/EQUITY RATIO WHICH, IN THE OPINION OF THE
SECRETARY OF STATE, WOULD BE MORE APPROPRIATE TO
THE BRITISH AIRWAYS BOARD." SECTION 43 OF CIVIL
AVIATION ACT 1971 AFFORDS UKG AUTHORITY TO PROVIDE
PDC CONTRIBUTIONS.

2. IN ADDITION TO FOREGOING INJECTIONS OF PDC, AN
ESTIMATED 115 MILLION POUNDS WILL BE PROVIDED
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BRITISH AIRWAYS 1975/76 IN FORM OF PDC FOR PURCHASE

OF FIVE CONCORDES AND SPARES. THERE ALSO APPEARS TO BE AN UNDERSTANDING BETWEEN GOVERNMENT AND BA THAT, IF NECESSARY, THE GOVERNMENT WOULD BE PREPARED TO UNDERWRITE LOSSES WHICH MIGHT BE INCURRED FROM CONCORDE OPERATIONS. AT LEAST THAT APPEARS TO BE THE IMPLICATION OF THE CAREFULLY-WORDED STATEMENT OF THE THEN MINISTER FOR AEROSPACE IN 1972 WHEN HE TOLD THE HOUSE OF COMMONS THAT "I HAVE ALSO AGREED THAT THE GOVERNMENT WILL BE PREPARED TO REVIEW THE FINANCIAL PROVISION PERIODICALLY WITH THE (AIRWAYS) BOARD IN THE LIGHT OF THE OUTCOME OF THE BOARD'S OPERATIONS AND OF THE CONDITIONS PREVAILING IN INTERNATIONAL CIVIL AVIATION AT THE TIME AND IF NECESSARY TO TAKE STEPS TO ENSURE THAT THE BOARD MAINTAINS A SOUND FINANCIAL PERFORMANCE." A SIMILAR ARRANGEMENT WAS MADE PREVIOUSLY WHEN BEA WAS REQUIRED TO ORDER BAC-111S AND TRIDENTS INSTEAD OF BOEING AIRCRAFT.

3. GOVERNMENT SUPPLIED PDC RELIEVES BA OF IMPORTANT FINANCIAL CONSTRAINT WHICH FACES PRIVATELY OWNED AIRLINES. IT ALSO PLACES GOVERNMENT IN A POSITION TO TAKE INTO ACCOUNT CONDITIONS IMPOSED BY GOVERNMENT ON BA WHICH MAY AFFECT PROFITABILITY OF OPERATIONS AND/OR EQUIPMENT PURCHASE DECISIONS. RETURN FOR USE OF PDC IS BY PAYMENTS MADE BY BA AS PROPOSED BY BA BOARD AND AGREED BY SECRETARY OF STATE FOR TRADE. SINCE SECRETARY OF STATE HAS AUTHORITY TO DETERMINE SHARE OF PROFITS THAT WILL BE PAID TO GOVERNMENT AS DIVIDEND ON PDC, THIS ALSO MEANS HE CAN DECIDE SHARE OF PROFITS WHICH BA CAN RETAIN.

4. ASIDE FROM BAC-111/TRIDENT PURCHASE IN PAST AND CONCORDE PURCHASE IN FUTURE, GOVERNMENT HAS, FOR MOST PART, LEFT BA FREE TO OPERATE ALONG STRICTLY COMMERCIAL LINES AND NO OTHER SUBSIDIES ARE EVIDENT. IT SHOULD ALSO BE NOTED THAT GOVERNMENT DECISIONS DO NOT ALWAYS FAVOR BA. MOST IMPORTANT DECISION RECENTLY WHICH WENT AGAINST BA INTERESTS WAS ESTABLISHMENT IN 1972 OF PRIVATELY OWNED "SECOND FORCE CARRIER," BRITISH LIMITED OFFICIAL USE

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CALEDONIAN, WHICH COMPETES WITH BA AND OTHER INTERNATIONAL CARRIERS AND WHICH WAS GIVEN IMPORTANT ROUTES FROM BA'S NETWORK. DESPITE THIS, HOWEVER, OVER PAST EIGHT YEARS, BA HAS ONE OF BEST PROFIT RECORDS OF ANY OF THE LARGE INTERNATIONAL AIRLINES.

5. BA ESTIMATES THAT AS RESULT OF RECENT CHANGES IN INTERNATIONAL AVIATION PICTURE, OF WHICH THE MOST

IMPORTANT HAS CLEARLY BEEN SKYROCKETING FUEL PRICES,
THE BEST IT CAN HOPE TO ACHIEVE IN 1974 WILL BE TO
BREAK EVEN. IT HAD PREVIOUSLY PREDICTED PROFITS ON
THE ORDER OF 30 MILLION POUNDS IN 1974. ANNENBERG

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